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Friday 19 April, 2013

Dear Reena,

Value of Customer Reliability Issues Paper

GDF Suez Australian Energy (GDFSAE) appreciates the opportunity to comment on AEMO's Value of Customer Reliability (VCR) issues paper.

GDFSAE recognises the difficulties associated with obtaining accurate VCR measures for the various customer categories in the NEM. This reflects the general nature of the difficulties associated with carrying out cost-benefit analyses for a wide range of public policy matters. However as noted by the Productivity Commission in their draft report on electricity network regulatory frameworks[1], customers inevitably do place a value on reliability, and that on balance, an approximate estimate of customer VCR is better than no estimate at all.

We note the comments in the issues paper with regard to network planning, and agree that under the RIT-T process, it is important that consistent and reasonable values for VCR are used in assessing market benefits. GDFSAE believes that when using VCR for network planning, it is important that the customer categories are relevant to the particular network element under consideration. For example, if a RIT-T is considering a network augmentation to support a largely residential area, then the VCR used should be relevant to that category of customer.

Relevance to the wholesale energy market:

GDFSAE generally supports the application of the VCR to inform the process for setting the reliability standard and hence, the market price cap (MPC). However, noting the difficulties in establishing a precise figure for VCR, caution needs to be exercised in how explicitly the VCR is used for this purpose. A deterministic approach to relate the MPC with the VCR would therefore not be recommended.

The NEM reliability standard as set by the Reliability Panel has been at the same level since the NEM commenced[2]. The USE target of 0.002% suggests that an assessment has already been made as to what constitutes an acceptable level of interruption to customer supply. Although this has not been expressed in terms of the dollar value that customers place on reliability, it is a representation of the level of supply disruption that customers are deemed as willing to accept. This infers that a value for VCR has been made – even if not explicitly identified.

[1] Productivity Commission Draft Report – Electricity Networks Regulatory Framework; October 2012.
[2] The maximum expected unserved energy (USE), or the maximum amount of electricity expected to be at risk of not being supplied to consumers, is 0.002% of the annual energy consumption for the associated region or regions per financial year.

GDFSAE is generally supportive of the use of VCR in assessing SRAS costs versus benefits. In the event of a system black, the VCR forms a more accurate approximation of costs to consumers than the MPC. Any such assessment needs to take into account the potential impact of blackouts across a wide area such as an entire state. The assessment should include consideration of social costs, which appear not to have been reflected adequately in a sector specific VCR. For example, if an entire state was blacked out, there is potential for additional costs due to traffic chaos, public transport failure, impact on food storage and distribution, public health issues, etc. These additional costs should be considered in any assessment of SRAS costs and benefits.

Network Support and Control Ancillary Service (NSCAS) is procured by AEMO to prevent post contingent overload of network elements. If insufficient NSCAS is available, load shedding could be required post contingency to return network element power flows to within their ratings. For load shedding to be effective in controlling specific network element power flows, the interrupted load would need to come from specific load blocks which are in the right location. Thus, the VCR used would need to be reflective of the specific load blocks at risk for any given network element.

Approaches to deriving VCR:

GDFSAE suggests that the focus should be on market mechanisms which reveal the level of VCR by encouraging demand side participation. However, where demand side participation is introduced artificially by subsidies, this creates a distortion which needs to be taken into account in any assessment of VCR.

GDFSAE favours a modelling approach to determining VCR, which includes disaggregation by customer-type to enable the VCR to be applied in a more targeted manner. In consideration of the modelling approach, caution is needed to ensure that modelling is effective, and does not result in over analysis – results could be "exactly wrong", when an "approximately right" answer is likely to suffice.

In assessing the accuracy of VCR estimates, there could be some merit in carrying out analysis of real costs following actual blackout events. It is also possible that some post event review of events from other countries could provide useful insights.

Please do not hesitate to contact me on 03 9617 8331 if you wish to discuss any aspect of this submission.

Yours sincerely,

Chris Deague
Senior Market Specialist